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SECTION 54 EXEMPTION FOR CAPITAL GAINS ARISING ON TRANSFER OF RESIDENTIAL HOUSE PROPERTY

Introduction

A person wanted to shift his residence due to certain reason, hence, he sold his old house and from the sale proceeds he purchased another house. In this case the objective of the seller was not to earn income by sale of old house but to acquire another suitable house. If in this case the seller was liable to pay income-tax on capital gains arising on sale of old house, then it would be a hardship on him. Section 54 gives relief from such a hardship. Section 54 gives relief to a taxpayer who sells his residential house and from the sale proceeds he acquires another residential house. The detailed provisions in this regard are discussed in this part.

Basic conditions

Following conditions should be satisfied to claim the benefit of section 54.

- The benefit of section 54 is available only to an individual or HUF.
- The asset transferred should be a long-term capital asset, being a residential house property.
- Within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire another residential house or should construct a residential house within a period of three years from the date of transfer of the old house. In case of compulsory acquisition the period of acquisition or construction will be determined from the date of receipt of compensation (whether original or additional).

Exemption can be claimed only in respect of one residential house property purchased/constructed in India. If more than one house is purchased or constructed, then exemption under section 54 will be available in respect of one house only. No exemption can be claimed in respect of house purchased outside India.

With effect from Assessment Year 2021-22, the Finance Act, 2020 has amended Section 54 to extend the benefit of exemption in respect of investment made in *two* residential house properties. The exemption for investment made, by way of purchase or construction, in *two* residential house properties shall be available if the amount of long-term capital gains does not exceed Rs. 2 crores. If assessee exercises this option, he shall not be entitled to exercise this option again for the same or any other assessment year.

Further, with effect from Assessment Year 2024-25 the Finance Act 2023 has restricted the maximum exemption to be allowed under Section 54. In case the cost of the new asset exceeds Rs. 10 crores, the excess amount shall be ignored for computing the exemption under Section 54.

Illustration

Mr. Raja purchased a residential house in April, 2016 and sold the same in April 2025 for Rs. 8,40,000. Capital gain arising on sale of the house amounted to Rs. 1,00,000. Can he claim benefit of section 54 by purchasing/constructing another residential house from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, 'being long-term residential house property. This benefit is available only to an individual or HUF. In this case, all the conditions as provided in section 54 are satisfied and hence, Mr. Raja can claim the benefit of section 54 by purchasing/constructing a residential house within the time-limit as provided under section 54.

Illustration

Mr. Raj purchased a residential house in April, 2024 and sold the same in April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. Can he claim benefit of section 54 by purchasing/constructing another residential house from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. The period of holding in case of immovable property, being land or building or both, is 24 months, to qualify as long-term capital asset. In this case the house property is sold after holding it for a period of less than 24 months and, hence, it is a short-term capital asset. The benefit of section 54 is not available in respect of a short-term capital asset and, hence, in this case Mr. Raj cannot claim the benefit of section 54.

Illustration

Kumar HUF purchased a residential house in April, 2018 and sold the same in April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house property amounted to Rs. 1,00,000. Can the HUF claim the benefit of section 54 by purchasing a new house from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. This benefit is available only to an individual or HUF. In this case all the conditions as provided in section 54 are satisfied and, hence, Kumar HUF can claim the benefit of section 54 by purchasing/constructing a residential house within the time-limit as provided under section 54.

Illustration

Mr. Raja purchased a residential house in April, 2017 and sold the same in April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. Can he claim the benefit of section 54 by purchasing a plot of land and then constructing a new house from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. This benefit is available only to an individual or HUF. The benefit can be claimed by purchasing or by constructing a residential house. In this case, all the conditions as provided in section 54 are satisfied and, hence, Mr. Raja can claim the benefit of section 54 by constructing a residential house on the plot purchased by him within the time-limit as provided under section 54.

Illustration

Mr. Kumar purchased gold in April, 2018 and sold the same in April, 2025 for Rs. 8,40,000. Capital gain arising on sale of gold amounted to Rs. 1,00,000. Can he claim the benefit of section 54 by purchasing/constructing a house from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of a capital asset, being long-term residential house property. In this case, the capital asset is gold, i.e., other than residential house and, hence, the benefit of section 54 is not available. However, in this case benefit can be claimed under section 54F subject to certain conditions as defined in that provision.

Illustration

Mr. Raja purchased a residential house in April, 2018 and sold the same in April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. Can he claim the benefit of section 54 by purchasing a shop from the capital gain of Rs. 1,00,000?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of a capital asset, being long-term residential house property. This benefit is available if another residential house is purchased from the capital gains. In other words, the benefit of section 54 is available if the capital gain arising on transfer of residential house is invested in another residential house. The benefit of section 54 is not available if the capital gain arising on transfer of house is invested in capital asset other than a residential house. In this case Mr. Raja wants to purchase a shop (i.e., capital asset other than a residential house) and, hence, the benefit of section 54 is not available.

Illustration

Mr. Parekh purchased a residential house in April, 2018 and sold the same on 25th April, 2025, for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. He had purchased a residential house in December, 2024 for Rs. 5,00,000. Can he claim the benefit of section 54 in respect of the house purchased in December, 2024?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. To claim exemption under section 54, another house should be purchased within a period of one year before or two years after the date of transfer of house. In this case the old house was transferred in April, 2025, hence, any house purchased within a period of 1 year before 25th April, 2025 can qualify for exemption under section 54. Hence, house purchased in December, 2024 will qualify for exemption under section 54.

Illustration

Mr. Chopra purchased a residential house in the previous year 2008-09 for Rs. 2 crores. The house property is sold for Rs. 3 crores in the previous year 2025-26 and the capital gain is invested in *two* residential house properties worth Rs. 1 crores each in same previous year. Can he claim the benefit of section 54 in respect of both houses?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. With effect from Assessment Year 2020-21, a taxpayer has an option to make investment in two residential house properties in India to claim section 54 exemption. This option can be exercised by the taxpayer only once in his lifetime provided the amount of long-term capital gain does not exceed Rs. 2 crores.

Since, the gain arising in hands of Mr. Chopra is Rs. 1 crore, he can claim the benefit of section 54 by making investment in two house properties.

Illustration

Mr. Khan purchased a residential house in the previous year 2007-08 for Rs. 2 crores. The house property is sold for Rs. 10 crores in the previous year 2025-26 and the capital gain is invested in *two* residential house properties worth Rs. 4 crores each. Can he claim the benefit of section 54 in respect of both houses?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. With effect from Assessment Year 2020-21, a taxpayer has an option to make investment in two residential house properties in India to claim section 54 exemption. This option can be exercised by the taxpayer only once in his lifetime provided the amount of long-term capital gain does not exceed Rs. 2 crores.

Since, the gain arising in hands of Mr. Khan is more than Rs. 2 crore, he cannot claim the benefit of section 54 by making investment in two house properties.

Illustration

Mr. Anil sold his residential house on July 02, 2025 for Rs. 10 crores which was purchased by him 10 year ago for Rs. 8 crore. Mr. A bought a new residential house on October 01, 2025 and on March 01, 2027 worth Rs. 1 crore each.

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. With effect from Assessment Year 2020-21, a taxpayer has an option to make investment in two residential house properties in India to claim section 54 exemption. This option can be exercised by the taxpayer only once in his lifetime provided the amount of long-term capital gain does not exceed Rs. 2 crores.

The option to claim capital gain exemption under Section 54, in respect of two houses, shall be available as the amount of capital gains does not exceed Rs. 2 crores.

As the original residential house is transferred on July 02, 2025, the new house shouldbe purchased within one year before and two years after the date of transfer. In other words, the new asset purchased between July 3, 2025 and July 01, 2027 shall be eligible for exemption under Section 54.

As the first house is purchased on October 01, 2025, within 1 year before the date of transfer of original asset, and second house is purchased on March 01, 2027, within 2 years after the date of sale of original residential house, investment in both the new houses are eligible for section 54 exemption.

Illustration

Mr. Amir purchased a residential house in the previous year 2003-04 for Rs. 5 crores. The house property is sold for Rs. 18 crores in the previous year 2025-26 and the capital gain is invested in residential house property worth Rs. 14 crore. Can he claim the benefit of section 54 in available?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. In this case all the conditions as provided in section 54 are satisfied and, hence, Mr. Amir can claim the benefit of section 54 by purchasing/constructing a residential house within the time-limit as provided under section 54.

However, as the amendment made by the Finance Act 2023, if the cost of the new asset exceeds Rs. 10 crores, the excess amount shall be ignored for computing the exemption under Section 54.

Thus, the maximum exemption allowed shall be as follows:

Particulars	**Rs.** (in crores)
Long-term capital gain arising on transfer of old house [18 – 5]	13
Less: Exemption under section 54 (*)	10
Taxable long-term capital gains	3

* The cost of new asset exceeds is Rs. 14 crore, hence only Rs. 10 crore shall be taken into consideration for the purpose of exemption and Rs. 4 crore shall be ignored.

Amount of exemption

Exemption under section 54 will be lower of following:

- Amount of capital gains arising on transfer of residential house; or
- Amount invested in purchase/construction of new residential house property [including the amount deposited in Capital Gains Deposit Account Scheme (discussed later)].

Illustration

Mr. Raja purchased a residential house in April, 2017 and sold the same on 25th April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. Out of the sale proceeds of old house, he purchased another residential house for Rs. 80,000. This house was purchased in May, 2025. What will be the amount of exemption under section 54 which can be claimed by Mr. Raja?

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Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. Exemption under section 54 will be lower of the following :

- Amount of capital gains arising on transfer of residential house; or
- Amount invested in purchase/construction of new residential house property

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain, i.e., Rs. 1,00,000.
- Amount of investment in new house, i.e., Rs. 80,000

Thus, exemption will be Rs. 80,000. Taxable capital gain will come to Rs. 20,000 (Rs. 1,00,000 *less* exemption under section 54 of Rs. 80,000).

Illustration

Mr. Kapoor purchased a residential house in April, 2017 and sold the same on 25th April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 1,00,000. Out of the sale proceeds of old house, he purchased another residential house for Rs. 1,20,000. This house was purchased in May, 2025. What will be the amount of exemption under section 54 which can be claimed by Mr. Kapoor?

**

Exemption under section 54 can be claimed in respect of capital gains arising on transfer of capital asset, being long-term residential house property. Exemption under section 54 will be lower of following :

- Amount of capital gains arising on transfer of residential house; or
- Amount invested in new residential house property

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain, i.e., Rs. 1,00,000.
- Amount of investment in new house, i.e., Rs. 1,20,000 Thus, exemption will be Rs. 1,00,000.

Taxable capital gain will come to *Nil* (entire gain will be exempt).

Consequences if the new house is transferred

Exemption under section 54 is available in respect of rollover of capital gains arising on transfer of residential house into another residential house. However, to keep a check on misutilisation of this benefit, a restriction is inserted in section 54. The restriction is in the form of prohibition of sale of the new house.

If a taxpayer purchases/constructs a house and claims exemption under section 54 and then transfers the new house within a period of 3 years from the date of its acquisition/completion of construction, then the benefit granted under section 54 will be withdrawn. The ultimate impact of the restriction is as follows:

- The restriction will be attracted, if after claiming exemption under section 54, the new house is sold before a period of 3 years from the date of its purchase/completion of construction.
- If the new house is sold before a period of 3 years from the date of its purchase/completion of construction, then at the time of computation of capital gain arising on transfer of the new house, the amount of capital gain claimed as exempt under section 54 will be deducted from the cost of acquisition of the new house.

Illustration

Mr. Rajat sold his old house in April, 2025 for Rs. 25,20,000. Long-term capital gain arising on transfer of old house amounted to Rs. 8,40,000. In December, 2025 he purchased another residential house worth Rs. 10,00,000. The new house was however, sold in April, 2026 for Rs. 12,00,000 (stamp duty value of the new house was Rs. 10,00,000). What will be amount of taxable capital gains in the hands of Mr. Rajat for the financial years 2025-26 and 2026-27?

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Computation of capital gains for the financial year 2025-26

Particulars	Rs.
Long-term capital gain arising on transfer of old house	8,40,000
Less: Exemption under section 54 (*)	8,40,000
Taxable long-term capital gains	*Nil*

(*) Exemption under section 54 will be lower of following :

- Amount of capital gains arising on transfer of residential house; or
- Investment in new residential house property

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain, i.e., Rs. 8,40,000.
- Amount of investment in new house, i.e,. Rs. 10,00,000

Thus, exemption will be Rs. 8,40,000.

Computation of capital gains for the financial year 2026-27

If a taxpayer purchases/constructs a house and claims exemption under section 54 and then the new residential house property is transferred within a period of 3 years from the date of its acquisition/completion of construction, then the benefit granted under section 54 will be withdrawn. The computation in this case will be as follows :

Particulars	Rs.
Full value of consideration (i.e., Sales value)	12,00,000
Less: Expenditure incurred wholly and exclusively in connection with transfer of capital asset (E.g., brokerage, etc.).	*Nil*
Net sale consideration	12,00,000
Less: Cost of acquisition of the house (*)	1,60,000
Taxable short- term capital gains on sale of new house	10,40,000

(*) If the new house is sold before a period of 3 years from the date of its purchase/completion of construction, then at the time of computation of capital gain arising on transfer of the new house, the amount of capital gain claimed as exemption under section 54 will be deducted from the cost of acquisition of the new house. Applying this provision, the cost of acquisition of new house will be computed as follows:

Particulars	Rs.
Actual cost of acquisition of new house	10,00,000
Less: Exemption claimed earlier under section 54	8,40,000
Cost of new house to be used while computing capital gain	1,60,000

Illustration

Mr. Rajat sold his old house in April, 2025 for Rs. 25,20,000. Long- term capital gain arising on transfer of old house amounted to Rs. 8,40,000. In December, 2025 he purchased another residential house worth Rs. 5,00,000. The new house was however, sold in April, 2026 for Rs. 12,00,000 (stamp duty value of the new house was Rs. 10,00,000). What will be amount of taxable capital gains in the hands of Mr. Rajat for the financial years 2025-26 and 2026-27?

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Computation of capital gains for the financial year 2025-26

Particulars	Rs.
Long- term capital gain arising on transfer of old house	8,40,000
Less: Exemption under section 54 (*)	5,00,000
Taxable long- term capital gains	3,40,000

(*) Exemption under section 54 will be lower of following :

- Amount of capital gains arising on transfer of residential house, or
  Investment in new residential house property

Considering the above provisions, the exemption in this case will be lower of the following amount :

- Amount of capital gain, i.e., Rs. 8,40,000.
- Amount of investment in new house, i.e., Rs. 5,00,000

  Thus, exemption will be Rs. 5,00,000.

Computation of capital gains for the financial year 2026-27

If a taxpayer purchases/constructs a house and claims exemption under section 54 and then the new residential house property is transferred within a period of 3 years from the date of its acquisition/completion of construction, then the benefit granted under section 54 will be withdrawn. The computation in this case will be as follows :

Particulars	Rs.
Full value of consideration (i.e., Sales value)	12,00,000
Less: Expenditure incurred wholly and exclusively in connection with transfer of capital asset (E.g., brokerage, etc.).	*Nil*

Net sale consideration	12,00,000
Less: Cost of acquisition (*)	*Nil*
Taxable short- term capital gains on sale of new house	12,00,000

(*) If the new house is sold before a period of 3 years from the date of its purchase/completion of construction, then at the time of computation of capital gain arising on transfer of the new house, the amount of capital gain claimed as exemption under section 54 will be deducted from the cost of acquisition of the new house. Applying this provision, the cost of acquisition of new house will be computed as follows:

Particulars	Rs.
Actual cost of acquisition of new house *	5,00,000
Less: Exemption claimed earlier under section 54	5,00,000
Cost of new house to be used while computing capital gain	*Nil*

Capital Gain Deposit Account Scheme

To claim exemption under section 54, the taxpayer should purchase another house within a period of one year before or two years after the date of transfer of old house or should construct another house within a period of three years from the date of transfer. If till the date of filing the return of income, the capital gain arising on transfer of the house is not utilised (in whole or in part) to purchase or construct another house, then the benefit of exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme in any branch of public sector bank, in accordance with Capital Gains Deposit Accounts Scheme, 1988 (hereafter referred as Capital Gains Account Scheme). The new house can be purchased or constructed by withdrawing the amount from the said account within the specified time-limit of 2 years or 3 years, as the case may be.

However, with effect from Assessment Year 2024-25 if the capital gains deposited in the Capital Gains Scheme Account exceed Rs. 10 crores, the excess amount shall not be taken into account while computing capital gain exemption

Illustration

Mr. Raj is a salaried employee. He had purchased a residential house in April, 2017 and sold the same on 25th April, 2025 for Rs. 8,40,000. Capital gain arising on sale of house amounted to Rs. 2,00,000. He wants to claim exemption under section 54 by purchasing another residential house. By what time he should purchase or construct another residential house?

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To claim exemption under section 54, the taxpayer should purchase another house within a period of one year before or two years after the date of transfer of old house. In this case, the old house is transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025; alternatively he can construct another house within a period of 3 years from 25th April, 2025.

The old house is transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July, 2026. If Mr. Raj cannot purchase/construct another house by 31st July, 2026, then he has to deposit Rs. 2,00,000 in Capital Gains Account Scheme. By depositing Rs. 2,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 2,00,000 under section 54. However, merely depositing the sum in the Capital Gains Account Scheme would not be sufficient; after deposit in the scheme he has to utilise this fund to purchase/construct the house within the specified period of 2 years/3 years, as the case may be.

Illustration

Mr. Rajan is a salaried employee. He had purchased a residential house in April, 2017 and sold the same on 25th, April, 2025 for Rs. 18,40,000. Capital gain arising on sale of house amounted to Rs. 4,00,000. He could not purchase/construct another house by 31st July, 2026, however, in July, 2026 he deposited Rs. 4,00,000 in Capital Gains Account Scheme. Will he be entitled to claim any exemption under section 54?

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To claim exemption under section 54, the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case, the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively, he can construct another house within a period of 3 years from 25th April, 2025.

The old house is transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July, 2026. If Mr. Rajan can not purchase/construct another house by 31st July, 2026, then he has to deposit Rs. 4,00,000 in Capital Gains Account Scheme. By depositing Rs. 4,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 4,00,000 under section 54. In this case, he has deposited Rs. 4,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 4,00,000 under section 54. To continue the exemption he has to utilize the funds deposited in the scheme to purchased/construct the house within the specified period of 2 years/3 years, as the case may be.

Illustration

Mr. Vipul is a salaried employee. He had purchased a residential house in April, 2016 and sold the same on 25th April, 2025 for Rs. 18,40,000. Capital gain arising on sale of house amounted to Rs. 4,00,000. He could not purchase/construct another house by 31st July, 2026, however, in October, 2026 he deposited Rs. 4,00,000 in Capital Gains Account Scheme. Will he be entitled to claim any exemption under section 54?

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To claim exemption under section 54 the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case, the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July 2026. If Mr. Vipul cannot purchase/construct another house by 31st July, 2026, then he has to deposit Rs. 4,00,000 in Capital Gains

Account Scheme by 31st July, 2026 (i.e., by the due date of filing the return of income). The amount deposited in the Capital Gains Account Scheme till 31st July, 2026 will be taken into account to ascertain the exemption under section 54.

In this case, Mr. Vipul has deposited Rs. 4,00,000 in Capital Gains Account Scheme, but has deposited in October, 2026 (i.e., after 31st July) and, hence, he cannot claim exemption in respect of the amount deposited in the scheme. Thus, exemption under section 54 will be ***Nil***.

Illustration

Mr. Rahul is a self-employed person. He had purchased a residential house in April, 2017 and sold the same on 25th April, 2025 for Rs. 15 crores. Capital gain arising on sale of house amounted to Rs. 12 crores. He could not purchase/construct another house by 31st July, 2026, however, he deposited Rs. 12 crores in Capital Gains Account Scheme. Will he be entitled to claim any exemption under section 54?

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To claim exemption under section 54 the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case, the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July 2026. If Mr. Rahul cannot purchase/construct another house by 31st July, 2026, then he has to deposit capital gains in the Capital Gains Account Scheme by 31st July, 2026 (i.e., by the due date of filing the return of income).

Since Mr. Rahul has deposited Rs. 12 crore in the capital gain account scheme, he will be entitled to claim section 54 exemption, However, only 10 crores shall be taken into consideration while computing capital gain exemption under section 54.

Non-utilisation of amount deposited in Capital Gain Deposit Account Scheme

If the amount deposited in the Capital Gains Account Scheme in respect of which the taxpayer has claimed exemption under section 54 is not utilised within the specified period for purchase/construction of the residential house, then the unutilised amount (for which exemption is claimed) will be taxed as income by way of long- term capital gains of the year in which the specified period of 2 years/3 years gets over.

Illustration

Mr. Ramlal is a salaried employee. He had purchased a residential house in April, 2016 and sold the same on 25th April, 2025 for Rs. 25,20,000. Capital gain arising on sale of house amounted to Rs. 5,00,000. He could not purchase/construct another house by 31st July, 2026, however, in July, 2026 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. He did not purchase any residential house nor constructed any house till 24th April, 2028. Will he be entitled to claim any exemption under section 54? If yes, will the exemption granted be revoked subsequently?

**

To claim exemption under section 54, the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case, the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively, he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July, 2026. If Mr. Ranmal cannot purchase/construct another house by 31st July 2026, then he has to deposit Rs. 5,00,000 in Capital Gains Account Scheme. By depositing Rs. 5,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 5,00,000 under section 54. In this case, he has deposited Rs. 5,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 5,00,000 under section 54. In other words, exemption under section 54 for the year 2025-26 will come to Rs. 5,00,000.

He has to utilise the funds deposited in the scheme to purchase/construct the house within the specified period of 2 years/3 years. If he does not purchase/construct the house within a period of 2 years/3 years, then the amount (for which exemption is claimed) will be taxed as income by way of long-term capital gains of the year in which the specified period gets over.

In this case the period of 2 years gets over on 24th April, 2027 and the period of 3 years gets over on 24th April, 2028 Mr. Ranmal has not purchased any house till 24th April, 2027 nor constructed any house till 24th April, 2028, hence, the exemption of Rs. 5,00,000 allowed in the year 2024-25 will be revoked and will be taxed as income by way of long- term capital gains for the financial year 2028-29.

Illustration

Mr. Khush is a salaried employee. He had purchased a residential house in April, 2014 and sold the same on 25th April, 2025 for Rs. 25,20,000. Capital gain arising on sale of house amounted to Rs. 5,00,000. He could not purchase/construct another house by 31st July, 2026, however, in July, 2026 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. In January, 2027, he withdrew Rs. 4,00,000 from the Capital Gains Account Scheme and purchased a residential house. Thereafter, he did not purchase any residential house nor constructed any house till 24th April, 2027. Will he be entitled to claim any exemption under section 54? If yes, will the exemption granted be revoked subsequently?

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To claim exemption under section 54, the taxpayer should purchase a residential house within a period of one year before or two years from the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case, the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively, he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July 2026. If Mr. Khush cannot purchase/construct another house by 31st July 2026, then he has to deposit Rs. 5,00,000 in Capital Gains Account Scheme. By depositing Rs. 5,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 5,00,000 under section 54. In this case, he has deposited Rs.

5,00,000 in the Capital Gains Account Scheme and, hence, he can claim exemption of Rs. 5,00,000 under section 54. In other words, exemption under section 54 for the year 2025-26 will come to Rs. 5,00,000.

He has to utilise the amount deposited in the scheme (i.e., Rs. 5,00,000) to purchase/construct the house within the specified period of 2 years/3 years. If he does not purchase/construct the house within a period of 2 years/3 years, then the unutilised amount (for which exemption is claimed) will be taxed as income by way of long- term capital gains of the year in which the specified period gets over.

In this case the period of 2 years gets over on 24th April, 2027 and the period of 3 years gets over on 24th April, 2028. Hence, Mr. Khush has to purchase a residential house of Rs. 5,00,000 upto 24th April, 2027. Since he has utilized only Rs. 4,00,000 for purchase of a house property in January, 2027 and Section 54 allows exemptions for investment in one house only. The unutilised amount of Rs. 1,00,000 will be taxed as income by way of long- term capital gains in the year of expiry of the specified period.

In other words, the exemption of Rs. 1,00,000 (representing unutilised amount) allowed in the year 2025-26 will be revoked and will be taxed as income by way of long-term capital gains for the year 2027-28.

Illustration

Mr. Raju is a salaried employee. He had purchased a residential house in April, 2016 and sold the same on 25th April, 2025 for Rs. 18,40,000. Capital gain arising on sale of house amounted to Rs. 3,00,000. He could not purchase/construct another house by 31st July, 2026, however, in July, 2026 he deposited Rs. 5,00,000 in Capital Gains Account Scheme. He did not purchase any residential house nor constructed any house till 24th April, 2027. Will he be entitled to claim any exemption under section 54? If yes, will the exemption granted be revoked subsequently?
**

To claim exemption under section 54, the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively, he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July 2026. If Mr. Raju cannot purchase/construct another house by 31st July 2026, then he has to deposit Rs. 3,00,000 in Capital Gains Account Scheme. By depositing Rs. 3,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 3,00,000 under section 54. In this case he has deposited more amount, i.e., Rs. 5,00,000 in the Capital Gains Account Scheme, however, he will be entitled to claim exemption only on Rs. 3,00,000. In other words, exemption under section 54 for the financial year 2025-26 will be Rs. 3,00,000.

He has to utilise the funds deposited in the scheme to purchase/construct the house within the specified period of 2 years/3 years. If he does not purchase/construct the house within a period of 2 years/3 years, then the amount (for which exemption is claimed) will be taxed as income by way of long-term capital gains of the year in which the specified period gets over.

In this case the period of 2 years gets over on 24th April, 2027 and the period of 3 years gets over on 24th April, 2028. Mr. Raju has not purchased any house till 24th April, 2027 nor constructed any house till 24th April, 2028. Hence, the exemption of Rs. 3,00,000 allowed in the year 2025-26 will be revoked and will be taxed as income by way of long - term capital gains for the financial year 2028-29.

Illustration

Mr. Vipul is a salaried employee. He had purchased a residential house in April, 2016 and sold the same on 25th April, 2025 for Rs. 28,40,000. Capital gain arising on sale of house amounted to Rs. 6,00,000. He could not purchase/construct another house by 31st July, 2026, however, in July, 2026 he deposited Rs. 6,00,000 in Capital Gains Account Scheme. In April, 2027 he withdrew Rs. 6,00,000 from the scheme and purchased a car from the said amount. Will he be entitled to claim any exemption under section 54? If yes, will the exemption granted be revoked subsequently?

**

To claim exemption under section 54, the taxpayer should purchase a residential house within a period of one year before or two years after the date of transfer of old house or can construct a house within a period of three years from the date of transfer. In this case the old house was transferred on 25th April, 2025, hence, he has to purchase another house within a period of 2 years from 25th April, 2025. Alternatively, he can construct another house within a period of 3 years from 25th April, 2025.

The old house was transferred in the year 2025-26 and the due date of filing the return of income of the year 2025-26 is 31st July 2026. If Mr. Vipul cannot purchase/construct another house by 31st July 2026, then he has to deposit Rs. 6,00,000 in Capital Gains Account Scheme. By depositing Rs. 6,00,000 in the Capital Gains Account Scheme he can claim exemption of Rs. 6,00,000 under section 54. In this case he has deposited Rs. 6,00,000 in the Capital Gains Account Scheme and, hence, will be entitled to claim exemption only of Rs. 6,00,000. In other words, exemption under section 54 for the year 2025-26 will come to Rs. 6,00,000.

He has to utilise the funds deposited in the scheme to purchase/construct the house within the specified period of 2 years/3 years. The amount withdrawn from the scheme should be used to purchase/construct residential house. If the amount withdrawn from the scheme is used for any other purpose then it will be charged to tax as income by way of long-term capital gain of the year of withdrawal.

In this case Mr. Vipul has withdrawn Rs. 6,00,000 from the scheme. Thus, he should purchase/construct a residential house worth Rs. 6,00,000 in the year of withdrawal. However, he had utilised the said amount to purchase a car and, hence, Rs. 6,00,000 will be charged to tax as income by way of long-term capital gains of the year of withdrawal, i.e., financial year 2027-28.

MCQ ON EXEMPTION TO CAPITAL GAINS ON TRANSFER OF RESIDENTIAL PROPERTY

Q1. The benefit of section 54 is available only to an individual or a HUF.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

The benefit of section 54 is available only to an individual or a HUF.

Thus, the statement given in the question is true and hence, option (a) is the correct option.

Q2. To avail the benefit of section 54, the asset transferred should be_____________, being a residential house property.

(a) Short-term capital asset
(b) Long-term capital asset
(c) Short-term or long-term capital asset as per the choice of the assessee
(d) Short-term or long-term capital asset as per the choice of the Assessing Officer

Correct answer : (b)

Justification of correct answer :

To avail the benefit of section 54, the asset transferred should be a long-term capital asset, being a residential house property.

Thus, option (b) is the correct option.

Q3. To avail the benefit of section 54, the taxpayer should purchase a new residential house in India within a period of______________________________or________after the date of transfer of the old house.

(a) 1 year before, 3 years (b) 2 years before, 2 years
(c) 1 year before, 2 years (d) 3 years before, 1 year

Correct answer : (c)

Justification of correct answer :

To avail the benefit of section 54, within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire another residential house in India. Thus, option (c) is the correct option.

Q4. To avail the benefit of section 54, within a period of 3 years from the date of transfer of the old house, the taxpayer should construct a new residential house in India.

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

To avail the benefit of section 54, within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire a residential house in India or should construct a residential house in India within a period of three years from the date of transfer of the old house.

Thus, the statement given in the question is true and hence, option (a) is the correct option.

Q5. In case of compulsory acquisition the period of acquisition or construction will be determined from the date of receipt of compensation (whether original or additional).

(a) True (b) False

Correct answer : (a)

Justification of correct answer :

To avail the benefit of section 54, within a period of one year before or two years after the date of transfer of old house, the taxpayer should acquire a residential house in India or should construct a residential house in India within a period of three years from the date of transfer of the old house. In case of compulsory acquisition the period of acquisition or construction will be determined from the date of receipt of compensation (whether original or additional).

Thus, the statement given in the question is true and hence, option (a) is the correct option.

Q6. Exemption under section 54 can be claimed in respect of any number of residential house properties purchased/constructed in India as well as outside India.

(a)True (b) False

Correct answer : (b)

Justification of correct answer:

Exemption under section 54 can be claimed only in respect of one residential house property purchased/constructed in India. If more than one house is purchased/constructed, then exemption under section 54 will be available in respect of one house only. No exemption can be claimed in respect of house purchased outside India.

However, with effect from Assessment Year 2021-22, a taxpayer has an option to make investment in two residential house properties in India. This option can be exercised by the taxpayer only once in his lifetime provided the amount of long-term capital gain does not exceed Rs. 2 crores.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

Q7. Exemption under section 54 will be________the amount of capital gains arising on transfer of residential house or amount invested in purchase/construction of new residential house property [including the amount deposited in Capital Gains Deposit Account Scheme].

(a) Lower of (b) Higher of

(c) Equal to (d) Average of

Correct answer : (a)

Justification of correct answer :

Exemption under section 54 will be lower of following :

- Amount of capital gains arising on transfer of residential house; or
- Amount invested in purchase/construction of new residential house property [including the amount deposited in Capital Gains Deposit Account Scheme].

Thus, option (a) is the correct option.

Q8. After claiming benefit under section 54, if new house is transferred within a period of ____from the date of its acquisition/completion of construction, then the benefitgranted under section 54 will be withdrawn.

(a) 1 year (b) 3 years

(c) 5 years (d) 7 years

Correct answer : (b)

Justification of correct answer :

After claiming benefit under section 54, if new house is transferred within a period of 3 years from the date of its acquisition/completion of construction, then the benefit granted under section 54 will be withdrawn.

Thus, option (b) is the correct option.

Q9. If till the date of filing the return of income, the capital gain arising on transfer of the house is not utilised (in whole or in part) to purchase or construct another house, then the benefit of exemption available under section 54 cannot be availed by the taxpayer.

(a) True (b)False

Correct answer : (b)

Justification of correct answer :

If till the date of filing the return of income, the capital gain arising on transfer of the house is not utilised (in whole or in part) to purchase or construct another house, then the benefit of exemption can be availed by depositing the unutilised amount in Capital Gains Deposit Account Scheme in any branch of public sector bank, in accordance with Capital Gains Deposit Accounts Scheme, 1988.

Thus, the statement given in the question is false and hence, option (b) is the correct option.

Q10. After the expiry of specified period of 2 years/3 years, the unutilized amount remained in the Capital Gains Account Scheme will be taxed as income by way of ____in the year in which the specified period of 2 years/3 years gets over.

(a) Short-term capital gains (b) Long-term capital gains

(c) Profits and gains of business or profession (d) Income from other sources

Correct answer : (b)

Justification of correct answer :

After the expiry of specified period of 2 years/3 years, the unutilized amount remained in the Capital Gains Account Scheme will be taxed as income by way of long-term capital gains of the year in which the specified period of 2 years/3 years gets over.

Thus, option (b) is the correct option.